

be transparent



BE
LIBRO

2009
FINANCIAL STATEMENTS & NOTES

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of Libro Credit Union Limited and all the information in this annual report are the responsibility of Management and have been approved by the Board of Directors.

The financial statements have been prepared by Management in accordance with Canadian generally accepted accounting principles. When alternative accounting methods exist, Management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgements. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Management has prepared the financial information presented elsewhere in the annual report and has ensured that it is consistent with that in the financial statements.

Libro maintains systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the credit union's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that Management fulfills its responsibilities for financial reporting and

is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee. The Audit Committee is appointed by the Board. The Committee meets periodically with Management, and the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities, and to review the annual report, the financial statements and the external auditors' report. The Committee reports its findings to the Board for consideration when approving the financial statements for issuance to the owners.

The financial statements have been audited by Ernst & Young LLP, the external auditors, in accordance with Canadian generally accepted auditing standards on behalf of the owners



Jack Smit
President and
Chief Executive Officer

November 6, 2009



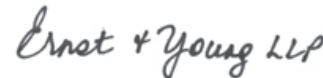
Rick Hoevenaars
Vice President Finance
and Chief Financial Officer

AUDITORS' REPORT TO THE OWNERS OF LIBRO CREDIT UNION LIMITED

We have audited the balance sheet of Libro Credit Union Limited as at September 30, 2009 and the statements of income, owners' equity, comprehensive income, and cash flows for the year then ended. These financial statements are the responsibility of the credit union's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the credit union as at September 30, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



London, Canada
November 6, 2009

Chartered Accountants
Licensed Public Accountants

BALANCE SHEET As at September 30 [thousands of dollars]

	2009	2008
ASSETS		
Cash and cash equivalents	4,741	3,380
Accrued interest receivable	3,682	5,234
Investments [note 2]	114,384	127,877
Loans to owners [notes 3 and 4]	1,144,960	1,035,195
Derivative financial instruments [note 12]	2,878	-
Property and equipment [note 5]	30,642	26,523
Other assets [note 6]	25,931	21,229
Income taxes receivable	605	8
Future income taxes [note 18]	237	912
Total assets	1,328,060	1,220,358
LIABILITIES AND OWNERS' EQUITY		
Owners' deposits [note 13]	1,181,655	1,108,750
Derivative financial instruments [note 12]	316	284
Accounts payable and accrued liabilities [note 10]	7,556	6,315
Accrued interest payable	13,155	12,896
Loans payable [note 7]	29,588	765
	1,232,270	1,129,010
LIABILITIES QUALIFYING AS REGULATORY CAPITAL [note 8]		
Owners' capital accounts	52,434	50,647
Stock dividends payable	3,225	3,796
	55,659	54,443
Total liabilities	1,287,929	1,183,453
Retained earnings	37,744	36,536
Accumulated other comprehensive income	2,387	369
	40,131	36,905
Total liabilities and owners' equity	1,328,060	1,220,358

See accompanying notes

On behalf of the Board of Directors:



Mr. A. Strybosch, Chair of the Board



Mr. R. Joyal, Vice Chair of the Board

STATEMENT OF INCOME	Year ended September 30 [thousands of dollars]	2009	2008
INTEREST INCOME			
Interest on loans [note 14[a](i)]		54,672	61,655
Investment income		3,099	3,833
		57,771	65,488
INTEREST EXPENSE			
Interest on owners' deposits [note 14[a](i)]		29,682	34,427
Dividends on Class B Investment Shares [note 8]		1,188	1,491
Interest on borrowings		171	65
		31,041	35,983
NET INTEREST INCOME			
		26,730	29,505
Non-interest income		10,223	8,380
TOTAL REVENUE		36,953	37,885
Provision for credit losses [note 4]		1,388	1,157
Non-interest expenses			
Salaries and employee benefits		18,439	17,673
General and administrative		4,535	4,160
Marketing and business development		2,659	2,495
Insurance		1,132	1,057
Systems and technology		1,326	1,293
Occupancy		2,756	2,464
Corporate and branch governance [note 14[a](ii)]		487	496
		31,334	29,638
Income before the undernoted			
		4,231	7,090
Dividends and profit sharing distributions [note 8]		2,044	2,315
Community investment [note 17]		215	321
Write down on value of CUCO shares [note 2]		242	258
Write down on value of property and equipment [note 5]		209	50
Income before income taxes			
		1,521	4,146
Provision for (recovery of) income taxes [note 18]			
Current		50	896
Future		263	(220)
		313	676
Net income for the year		1,208	3,470

See accompanying notes

STATEMENT OF OWNERS' EQUITY Year ended September 30 [thousands of dollars]

	2009	2008
RETAINED EARNINGS		
Balance at beginning of year	36,536	33,066
Net income for the year	1,208	3,470
Balance at end of year	37,744	36,536
Accumulated other comprehensive income (loss), net of income taxes		
Balance at beginning of year	369	(486)
Other comprehensive income for the year [note 1 (i)]	2,018	855
Balance at end of year	2,387	369
Total owners' equity at end of year	40,131	36,905

STATEMENT OF COMPREHENSIVE INCOME Year ended September 30 [thousands of dollars]

	2009	2008
Net income for the year	1,208	3,470
Other comprehensive income, net of income taxes [note 18]		
Net gain on available for sale financial instruments	157	-
Net gain on derivative instruments designated as cash flow hedges	2,895	509
Reclassification to income of (gains) losses on cash flow hedges	(1,034)	346
Other comprehensive income for the year	2,018	855
Comprehensive income for the year	3,226	4,325

See accompanying notes

STATEMENT OF CASH FLOWS Year ended September 30 [thousands of dollars]

	2009	2008
CASH PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Net income for the year	1,208	3,470
Add (deduct) non-cash items:		
Amortization	2,252	1,993
Provision for credit losses	1,388	1,157
Write down on value of property and equipment	209	50
Gain on securitization of loans [note 20 [a]]	2,036	-
Changes in operating assets and liabilities:		
Decrease (increase) in accrued interest receivable	1,552	(383)
Increase in accrued interest payable	259	1,705
Decrease in stock dividends payable	(571)	(1,399)
Increase in other assets	(4,702)	(18,782)
Increase in income taxes receivable	(597)	(8)
Decrease (increase) in future income taxes	675	(38)
Increase (decrease) in accounts payable and accrued liabilities	1,241	(448)
Decrease in income taxes payable	-	(174)
Unrealized losses (gains) and amounts payable on interest rate swap agreements	(828)	30
Cash provided by (used in) operating activities	4,122	(12,827)
FINANCING ACTIVITIES		
Increase in owners' deposits	72,905	122,035
Increase in owners' capital accounts	1,787	3,432
Increase in loans payable	28,823	765
Proceeds from securitization of loans [note 20 [a]]	33,808	-
Cash provided by financing activities	137,323	126,232
INVESTING ACTIVITIES		
Increase in loans to owners	(146,997)	(89,661)
Decrease (increase) in investments	13,493	(15,832)
Purchase of property and equipment	(6,582)	(11,002)
Proceeds from sale of property and equipment	2	128
Cash used in investing activities	(140,084)	(116,367)
Net increase (decrease) in cash and cash equivalents during the year	1,361	(2,962)
Cash and cash equivalents at beginning of year	3,380	6,342
Cash and cash equivalents at end of year	4,741	3,380

See accompanying notes

1) SIGNIFICANT ACCOUNTING POLICIES

[a] Reporting Entity

Libro Credit Union Limited ("Libro" or the "credit union") is incorporated under the Credit Unions and Caisses Populaires Act (Ontario), (the "Act") and is a member of the Deposit Insurance Corporation of Ontario ("DICO") and of Central 1 Credit Union ("Central 1"). The credit union uses the registered business trade name and operates as Libro Financial Group with 15 branch offices in southwestern Ontario. The corporate office is located in London, Ontario.

[b] Reporting Standards

Libro follows accounting policies appropriate to its activities and governing legislation, which conform, in all material respects, to Canadian generally accepted accounting principles. The significant accounting policies adopted by the credit union are summarized below.

[c] Management Estimates

Since a determination of many assets, liabilities, revenues and expenses is dependent upon future events, the preparation of these financial statements requires the use of estimates and assumptions which have been made by management using careful judgment. Actual results may differ from those estimates.

[d] Foreign Currency Translation

Assets and liabilities denominated in foreign currencies, primarily US dollars, are translated into Canadian dollars at rates prevailing at the year end date. Income and expenses are translated at the exchange rates in effect on the date of the transactions. Exchange gains and losses arising on the translation of monetary items are included in net income for the year.

[e] Interest Income and Expense

Interest income and expense is recognized in the Statement of Income for all interest bearing financial instruments classified as held to maturity, available for sale, loans and receivables and other financial liabilities using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or liability and allocating the interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts the expected future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial instrument. The application of this method has the effect of recognizing income and expense on the instrument evenly in proportion to the amount outstanding over the period to maturity or repayment.

In calculating the effective interest, the credit union estimates cash flows (using projections based on its experience of owners' behaviour) considering all contractual terms of the financial instruments but excluding future credit losses. Fees, including those for early redemption, are included in the calculation to the extent that they can be measured and are considered to be an integral part of the effective interest rate. Where it is not possible or practical to otherwise estimate reliably the cash flows or the expected life of a financial instrument, effective interest is calculated using the payments or receipts specified in the contract, and the full contractual term.

[f] Fees

Unless included in the effective interest calculation, fees are recognized on an accrual basis as the service is provided and reported on the Statement of Income as Non-interest income.

[g] Financial Assets and Liabilities

The Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3855 establishes standards for recognizing and measuring financial assets and financial liabilities. It requires that financial assets and liabilities be recognized on the Balance Sheet when the credit union becomes a party to the contractual provisions of a financial instrument. Under this standard, all financial instruments are required to be measured at fair value on initial recognition except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held for trading, loans and receivables, held to maturity, available for sale or financial liabilities. Management determines the classification of financial assets and liabilities at initial recognition and the designations made for each financial instrument are indicated in the notes. A description of the various designation classifications follows:

HELD FOR TRADING

Financial instruments are classified under this category if they are:

- (i) acquired principally for the purpose of selling or repurchasing in the near term;
- (ii) part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
- (iii) a derivative;
- (iv) designated at fair value using the fair value option ("FVO")

Financial instruments in category (iii) and (iv) cannot be transferred into or out of this category after inception. Commencing on October 1, 2008, financial instruments in category (i) and (ii) above may be reclassified only in rare and unusual circumstances. For designation at fair value using the FVO reliable fair values must be readily available and certain regulatory restrictions imposed by DICO must be met. These regulatory restrictions preclude direct retail asset exposures from being designated and require fair value designated financial instruments be managed on a fair value basis. Financial instruments included in this category are recognized initially at fair value and transaction costs are taken directly to the Statement of Income. Gains and losses arising from changes in the fair value of these instruments are also recorded in the Statement of Income.

LOANS AND RECEIVABLES

Loans and receivables are non-derivative financial assets with fixed or determinable repayment dates, usually with interest, that are not debt securities or instruments classified as held for trading on initial recognition. Loans and receivables are initially recognized at fair value including direct and incremental transaction costs. They are subsequently valued at amortized cost using the effective interest method (see note 1 [e]).

HELD TO MATURITY

Held to maturity investments are non-derivative financial assets with fixed or determinable payments that the credit union's management has the intention and ability to hold to maturity. They are initially recognized at fair value including direct and incremental transaction costs. They are subsequently valued at amortized cost, using the effective interest method (see note 1 [e]).

AVAILABLE FOR SALE

Available for sale assets are non-derivative financial assets that are designated as available for sale or are not categorized into any of the other categories described above. They are initially recognized at fair value including direct and incremental transaction costs. They are subsequently held at fair value with gains and losses arising from changes in fair value being recognized in other comprehensive income in the Statement of Comprehensive Income.

FINANCIAL LIABILITIES

Financial liabilities are non-derivative financial liabilities and are measured at amortized cost using the effective interest method (see note 1 [e]).

[h] Derivatives and Hedge Accounting

Derivative financial instruments are contracts that require or provide the opportunity to exchange cash flows or payments determined by applying certain rates, indices or changes therein to notional contract amounts. Libro uses derivative financial instruments, primarily interest rate swaps, in order to manage interest rate exposure. Derivatives are carried at fair value and are reported as assets where they have a positive fair value and as liabilities where they have a negative fair value, in both cases as interest rate swap agreements.

These instruments are used economically for hedging activities of groups of on-balance sheet assets and liabilities and have been designated as cash flow hedges. Each hedge is documented at inception detailing the particular risk management objective and the strategy for undertaking the hedge transaction. The documentation identifies the group of assets or liabilities being hedged, the risk that is being hedged, the type of derivative used and how effectiveness will be measured.

The effective portion of changes in the fair value of derivatives designated and qualifying as cash flow hedges is recognized in other comprehensive income, while gains and losses in fair value relating to the ineffective portion is recognized immediately in the Statement of Income as Investment income. The amounts and timing of future cash flows are projected for each portfolio of financial assets and liabilities on the basis of their contractual terms and other relevant factors, including estimates of prepayments and defaults. The aggregate principal balances and interest cash flows across all portfolios over time form the basis for identifying the effective portion of gains and losses on the derivatives designated as cash flow hedges.

When a hedging instrument expires or is sold, or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in other comprehensive income at that time remains in other comprehensive income until the forecasted transaction is eventually recognized in the Statement of Income. When a forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the Statement of Income.

[i] Comprehensive Income

CICA Handbook Section 1530 describes Comprehensive Income, which is comprised of Net income and Other comprehensive income ("OCI"). For Libro, OCI represents the change in Owners' equity during the year that is attributable to unrealized gains and losses on financial assets classified as available for sale, and the change in the fair value of the effective portion of cash flow hedging instruments. Consequently, the financial statements include a Statement of Comprehensive Income for the changes in these items during the year, while the cumulative changes in OCI are included in Accumulated other comprehensive income ("AOCI"), net of taxes, which is presented as a category of Owners' equity on the Balance Sheet.

[j] Property and Equipment

Property and equipment are carried at cost less accumulated amortization. Assets are generally amortized on the following basis:

Buildings	40 year straight line
Leasehold improvements	Term of lease plus one renewal term
Furniture and equipment	20% declining balance
Electronic equipment	3 to 5 year straight line
Computer equipment	2 to 3 year straight line
Computer software	12 to 36 months straight line
Banking system	5 year straight line

Amortization in the first year is prorated based on the number of months the asset is in service.

[k] Income Taxes

The liability method of tax allocation is used in accounting for income taxes. Under this method, future tax benefits and obligations are determined based on differences between the financial reporting and tax basis of assets and liabilities, and measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

[l] Allowance for Credit Losses

The allowance for credit losses represents specific and general provisions established as a result of reviews of individual loans and groups of loans. A loan is considered impaired when any of the following conditions exists: payment is past due by 90 days and the loan is not fully secured, payment is past due by 180 days regardless of security, or there is reasonable doubt of being able to fully collect principal and interest on the loan.

Specific allowances are established for impaired loans by reviewing the creditworthiness of individual borrowers and the value of the collateral underlying the loan. In such cases, an allowance is established to write down the loan to its estimated realizable amount. The estimated realizable amount is determined by reducing the carrying amount of the loan to the fair value of any collateral, net of expected costs or its observable market price. In cases where Libro has forgiven future income through the formal restructuring of a loan, the estimated realizable amount is established by discounting the expected future cash flows at the effective interest rate inherent in the loan.

General allowances represent the best estimate of probable losses within the loan portfolio that have not been specifically identified as impaired. These losses are estimated using a factor of 1 to 1.5 times the average annual net aggregate loss experienced in the preceding five year period. The factor to be used in a given year is set during the budgeting process, and is re-evaluated during the reporting period, based upon the current economic outlook, significant industry sector conditions, and overall portfolio quality. A factor of 1.5 was used for 2009 [1.5 in 2008].

[m] Employee Benefit Plans

Libro accrues its obligations under the employee pension plans and sick leave benefit plan and the related costs, net of plan assets and has adopted the following policies:

- the cost of pensions and sick leave benefits earned by employees are actuarially determined using the projected benefit method pro-rated on service and management's best estimate of expected plan investment performance, salary escalation and retirement ages of employees;
- for the purpose of calculating the expected return on plan assets, those assets are valued at fair value;
- past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment; and
- the excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees. The average remaining service period of the active employees covered by the pension plan is 16.6 years, and the sick leave benefit plan is 16.2 years.

[n] Cheques and Other Items in Transit, Net

Libro records cheques and other items in transit, representing uncleared settlements with other financial institutions at cost. The net value of these items is included in Other assets on the Balance Sheet.

[o] Transfers of Receivables

Libro occasionally sells receivables such as agricultural and commercial mortgage loans to other financial institutions to manage its portfolio diversification risk. In these instances the credit risk is transferred to the purchasing institution, while Libro continues to administer the receivables. As such, the mortgage loans are removed from the Balance Sheet since control of the assets has been transferred. A nominal administration fee is paid to Libro each month, which is recorded as income when received.

The sale price of receivables is determined at fair market value, which may give rise to either a gain or loss on sale. This gain or loss is recognized at the time of the sale and recorded as Non-interest income on the Statement of Income.

[p] Loan Securitization

Libro occasionally securitizes loans by selling them to independent special purpose entities or trusts that issue securities to investors. These transactions are accounted for as sales, and the loans are removed from the Balance Sheet when control over the assets has been surrendered and Libro has received consideration in exchange.

Gains or losses on securitization transactions are recognized immediately in the Statement of Income as Non-interest income. The amount of the gain or loss recognized depends in part on the previous carrying amount of the loans receivable involved in the transfer, allocated between the assets sold and the retained interests, based on their relative fair values at the date of the transfer. The amount of these gains or losses is based on the present value of expected future cash flows using management's best estimates of key assumptions, including prepayment rates, excess spread, credit losses, discount rates and other factors influencing the fair value of the loans. Libro also has a contractual obligation to service the loans on behalf of the transferee and, as a result, a servicing liability is recognized on the date of transfer and amortized over the term of the transferred loans.

As part of the securitization, certain interests are retained ("retained interests"), including the right to receive the future excess interest spread and the mortgage servicing liability. Retained interests for securitizations are designated either as

available for sale, or held for trading, with changes in fair value recorded through the Statement of Comprehensive Income, or the Statement of Income respectively. The fair values of the retained interests are estimated using the same present value methodology noted above for the gain on securitization. Retained interests are reviewed annually to assess for impairment. Subsequent to the securitization, any retained interests that cannot be contractually settled in such a way that Libro can recover substantially all of its recorded investment, are adjusted to fair value and the charge is recognized immediately in the Statement of Income. Libro also retains an interest in the securitized loans through cash reserve accounts, or deferred purchase accounts ("DPAs"). These DPAs are classified as investment securities in the financial statements. DPAs are designated as available for sale and held at fair value.

2) INVESTMENTS

		2009		2008	
Investments consist of the following: [thousands of dollars]		\$	Effective Rate	\$	Effective Rate
Short-term investments (due within 1 year):					
Central 1 Liquidity Reserve Deposit, market value \$50,648 [\$82,919 in 2008]	i	50,568	0.95%	82,743	3.24%
Central 1 Deposits, market value \$8,055 [\$15,991 in 2008]	i	8,052	0.55%	15,997	3.00%
Government Bonds and Bankers Acceptances market value nil [\$10,617 in 2008]	ii	-	-	10,617	2.98%
Current portion of loan securitization deferred purchased accounts	iii	-	-	597	3.20%
		58,620	0.89%	109,954	3.18%
Long-term investments (due beyond 1 year):					
Central 1 Liquidity Reserve Deposit, market value \$41,317 [nil in 2008]	i	41,245	1.32%	-	-
ABCP LP Investment	ii	5,097	-	7,692	-
Credit Union Central of Ontario - Shares	iii	1,510	-	9,572	-
Central 1 - Shares	iii	7,253	-	-	-
Loan securitization deferred purchased accounts	iii	628	0.25%	628	3.20%
Other	iii	31	2.57%	31	2.66%
		55,764	0.98%	17,923	0.12%
		114,384	0.94%	127,877	2.75%

Financial Instrument Designations:

i	Loans and receivables
ii	Held for trading
iii	Available for sale

At a special general meeting held on May 31, 2008, members of Credit Union Central of Ontario ("CUCO") approved a resolution to facilitate a sale of CUCO to Credit Union Central of British Columbia ("CUCBC") to form a new national financial services entity named Central 1 Credit Union. This acquisition was completed on July 1, 2008, and as a result the liquidity reserve deposits and a portion of the investment in shares formerly held in CUCO, are now held in Central 1.

Central 1 Liquidity Reserve Deposit:

As a member of Central 1, the credit union is required to maintain a liquidity reserve deposit equal to 7% of its total assets at the end of each calendar quarter. The investment consists of a number of individual deposits, invested at fixed market rates for various terms. The liquidity reserve deposit can only be withdrawn if there is a reduction in the credit union's total asset base, or upon withdrawal from membership in Central 1.

These investments meet the CICA Handbook definition of loans and receivables. The terms and conditions of these instruments are consistent with a lending contract whereby cash flows are advanced to Central 1 with a commitment to repay the credit union at a specified rate of interest according to preset maturity dates.

Shares in Credit Union Central of Ontario and Central 1:

Prior to the sale to Central 1, members of CUCO were required to hold an investment equal to 0.80% of its total assets in CUCO shares to remain a member in good standing. On the date of the acquisition, CUCO sold substantially all of its assets to Central 1 in exchange for Class A and Class E shares.

Through the course of this transaction the credit union received \$3,031,000 in Central 1 Class A shares and \$4,222,000 in Central 1 Class E shares. The credit union also retained \$2,010,000 in CUCO shares, which at the time of the acquisition by CUCBC were impaired. This resulted in a write down of \$258,000 in fiscal year 2008. Final closing adjustments recorded during the first quarter of 2009 necessitated a further write down of \$242,000, which has been recorded in the credit union's Statement of Income during 2009.

The CUCO shares and Central 1 shares do not have a quoted market price in an active market. As such, they are carried at cost less a provision for impairment that is considered other than temporary.

Asset Backed Commercial Paper Limited Partnership ("ABCP LP"):

As a pre-condition of the sale of the assets of CUCO to CUCBC, CUCO was required to divest itself of investments in certain non-bank sponsored asset-backed commercial paper ("ABCP"). A resolution was approved to facilitate the sale, which created a limited partnership ("LP") to acquire these investments funded by member credit unions in proportion to their share investment in CUCO.

On July 1, 2008, the excluded ABCP with a total par value of \$186,916,000 was acquired by the LP at its estimated fair value of \$133,564,000 including accrued interest, net of expenses, and other assets. As there was no active market in these ABCP investments, the fair values used to determine the acquisition price were determined by a specialized asset management firm engaged by CUCO to provide an independent valuation of the underlying assets. This transaction resulted in the credit union acquiring units in the LP with a total fair value on July 1, 2008, of \$7,692,000 plus accrued interest of \$243,000.

Based on the information available at the time, the credit union did not believe that it had access to sufficient information to reliably measure its investment in the LP at fair value. Therefore, the credit union designated the instrument as Available for Sale ("AFS"), which permits equity instruments that do not have quoted market prices to be carried at cost and written down if it is determined that an other than temporary impairment has occurred. However, the LP has committed to credit unions to provide fair value information on a monthly basis to provide the means for reliable measurement. As a result, the credit union has corrected its initial classification from initial recognition for this investment to be irrevocably designated as Held for Trading ("HFT") under the fair value option. The units are now carried on the credit union's Balance Sheet at fair market value, with changes in value reflected in investment income. This change in designation has no impact on the financial statements of the prior year.

During the past year, the credit union received distributions from the LP in the amount of \$1,684,000, which are recorded as a return of the initial capital invested.

Due to market conditions in the past year, the fair market value of the investment has declined by \$1,153,000 based on the valuation model received from the LP. That amount has been reflected in investment income.

3) LOANS TO OWNERS

	2009			
[thousands of dollars]	Principal Balance	Impaired Loans	Allowance for Credit Losses	Net Loans
Residential mortgage loans	354,374	147	55	354,319
Personal loans	131,750	100	755	130,995
Agricultural loans	348,650	2,238	322	348,328
Commercial loans	314,746	966	3,428	311,318
	1,149,520	3,451	4,560	1,144,960

	2008			
[thousands of dollars]	Principal Balance	Impaired Loans	Allowance for Credit Losses	Net Loans
Residential mortgage loans	343,122	47	39	343,083
Personal loans	111,624	83	640	110,984
Agricultural loans	315,152	2,078	54	315,098
Commercial loans	268,746	1,513	2,716	266,030
	1,038,644	3,721	3,449	1,035,195

Loans to owners can have either a variable or fixed rate of interest and mature within seven years. Variable rate loans are based on a "prime rate plus" formula with the rate above prime being determined by the size of the loan, the type of collateral offered, the purpose of the loan and the owner's creditworthiness. Interest rates offered on fixed rate loans vary depending on the size of the loan, the type of collateral offered, the purpose of the loan, the owner's creditworthiness and the loan term. All loans to owners have been designated as loans and receivables.

Residential mortgage loans include \$90,011,000 of loans insured by the Canada Mortgage and Housing Insurance Corporation [\$107,053,000 in 2008].

Personal loans include \$43,146,000 of personal line of credit loans secured by collateral first mortgages on owners' residential property [\$34,034,000 in 2008]. In accordance with the Act, these loans have been designated as residential mortgage loans for the purposes of risk weighted capital requirements (see note 9).

From time to time owner loans may be renegotiated, either as part of an ongoing owner relationship or in response to a change in the circumstances of the owner. Renegotiations and debt restructuring are in the normal course of the credit union's business. It is possible that a renegotiation could result in an extension of the due date of a repayment, however, the new terms and new interest rates would reflect the current market rates and economic environment. These are treated as new agreements and the loan would not be considered delinquent or impaired. If an owner is in financial distress they may be placed on an interest-only payment plan. This will result in the loan continuing to be delinquent and the loan will be considered as part of the impairment policy.

At September 30, the balances of loans in arrears within the portfolio were as follows:

[thousands of dollars]	2009				
	Residential Mortgage Loans	Personal Loans	Agricultural Loans	Commercial Loans	Total
Current	350,685	130,644	344,454	309,592	1,135,375
Less than 30 days arrears	2,969	747	1,144	2,519	7,379
30-89 days arrears	573	244	374	1,162	2,353
90-179 days arrears	-	47	485	507	1,039
180-365 days arrears	147	16	720	456	1,339
More than 365 days arrears	-	52	1,473	510	2,035
	354,374	131,750	348,650	314,746	1,149,520

[thousands of dollars]	2008				
	Residential Mortgage Loans	Personal Loans	Agricultural Loans	Commercial Loans	Total
Current	338,484	110,275	310,995	263,486	1,023,240
Less than 30 days arrears	3,706	1,087	1,228	3,772	9,793
30-89 days arrears	705	178	445	1,039	2,367
90-179 days arrears	180	46	406	34	666
180-365 days arrears	-	27	1,882	-	1,909
More than 365 days arrears	47	11	196	415	669
	343,122	111,624	315,152	268,746	1,038,644

At September 30, the term to maturity and average yields of the loan portfolio were as follows:

[thousands of dollars]	2009							
	Maturity	Variable	1 year or less	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 4 years	Over 4 to 7 years	Total
Total loans		656,323	51,517	105,458	109,015	100,719	126,488	1,149,520
Effective interest rate		3.53%	5.67%	6.13%	6.17%	6.19%	5.49%	4.56%

[thousands of dollars]	2008							
	Maturity	Variable	1 year or less	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 4 years	Over 4 to 7 years	Total
Total loans		515,652	75,087	57,433	123,123	139,828	127,521	1,038,644
Effective interest rate		5.56%	5.77%	5.77%	6.14%	6.15%	6.20%	5.81%

4) ALLOWANCE FOR CREDIT LOSSES

	2009				
[thousands of dollars]	Residential Mortgage Loans	Personal Loans	Agricultural Loans	Commercial Loans	Total
Balance, beginning of year	39	640	54	2,716	3,449
Collection of accounts					
previously written off	-	40	-	262	302
Accounts written off	-	(428)	-	(151)	(579)
Provision for credit losses	16	503	268	601	1,388
Balance, end of year	55	755	322	3,428	4,560

	2008				
[thousands of dollars]	Residential Mortgage Loans	Personal Loans	Agricultural Loans	Commercial Loans	Total
Balance, beginning of year	29	520	98	3,853	4,500
Collection of accounts					
previously written off	-	39	-	4	43
Accounts written off	-	(332)	(500)	(1,419)	(2,251)
Provision for credit losses	10	413	456	278	1,157
Balance, end of year	39	640	54	2,716	3,449

The allowance for credit losses includes a general allowance of \$2,530,000 [\$1,763,000 in 2008] calculated in accordance with the credit union's general allowance policy (see note 1 [I]).

Accounts are written off after all reasonable attempts to collect have been exhausted.

5) PROPERTY AND EQUIPMENT

Property and equipment consist of the following:	2009		2008	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
[thousands of dollars]				
Land	3,561	-	4,456	-
Buildings	25,098	4,832	22,170	4,484
Leasehold improvements	3,058	1,225	2,767	1,031
Furniture and equipment	4,723	2,703	3,667	2,687
Electronic equipment	4,063	3,087	3,313	2,697
Computer equipment	4,178	3,545	3,959	3,330
Computer software	1,885	1,691	1,710	1,312
Banking system	2,564	2,564	2,564	2,542
Property held for sale	1,159	-	-	-
Total	50,289	19,647	44,606	18,083
Less accumulated amortization	19,647		18,083	
Net book value	30,642		26,523	

Libro owns properties in which a significant portion of the space is dedicated for the purpose of earning rental income. The cost of the land and buildings with respect to floor space rented to tenants by Libro is \$10,571,000 [\$6,997,000 in 2008]. The land and buildings have a net book value of \$9,918,000 [\$6,819,000 in 2008].

The total gross revenue on credit union owned rental properties in 2009 was \$1,553,000 [\$1,303,000 in 2008], which resulted in a net loss of \$11,000 [net income of \$283,000 in 2008]. The net rental income or loss has been included in non-interest income.

The credit union entered into an agreement to sell the property held for sale that had formerly been used as an administration office. The asset was written down by \$184,000 to a carrying value of \$1,159,000 in 2009 to reflect its net realizable value. The sale transaction was completed on November 4, 2009.

During the year, the credit union also booked a write down of \$25,000 on the disposal of obsolete furniture and equipment as a result of its move to new administration offices. Most of the furniture was donated to local charitable organizations.

6) OTHER ASSETS

	2009	2008
Other assets consist of the following: [thousands of dollars]		
Prepaid items	506	651
Other receivables	3,374	1,659
Cheques and other items in transit, net [note 1[n]]	22,051	18,919
	25,931	21,229

7) LOANS PAYABLE

Libro has access to line of credit facilities totalling \$7,500,000 Canadian (CDN) [\$11,500,000 in 2008] and \$1,000,000 US [\$1,000,000 in 2008] and term and other loan facilities totalling \$50,500,000 CDN [\$46,500,000 in 2008] at Central 1.

The lines of credit are payable on demand within 30 days and bear interest at prime, while the term loans are payable at maturity and bear interest at a fixed rate. Libro has given a promissory note and pledged as collateral an assignment of its book debts.

These loans have been designated as financial liabilities and at year end these facilities were being utilized as follows:

	2009		2008	
[thousands of dollars]	Amount owing \$	Rate %	Amount owing \$	Rate %
Line of credit facilities	8,088	2.25	765	4.75
Term loan facilities (due within 1 year)	21,500	0.80	-	-
	29,588	1.20	765	4.75

8) OWNERS' CAPITAL ACCOUNTS**Membership shares:**

An unlimited number of membership shares have been authorized with a stated value of \$1 per share. Owners who are age eighteen and over are required to have a minimum of fifty shares while owners under that age are required to have ten shares. These shares are redeemable at their stated value only when the owner withdraws from ownership in Libro. At September 30, 2009 Libro had 47,610 [45,866 in 2008] owners who were age eighteen and over and 4,196 [4,322 in 2008] owners under the age of eighteen. These owners held a total of 2,422,460 membership shares [2,336,710 in 2008]. Each owner who is age sixteen and over is entitled to one vote.

Class A Profit shares:

An unlimited number of Class A non-cumulative, non-voting, non-participating special shares having an issue price of \$1. At September 30, 2009 there were 15,962,353 Class A Profit shares outstanding [14,525,993 in 2008].

Class B Investment shares:

An unlimited number of Class B non-cumulative, non-voting, non-participating special shares to be issued in series at a price of \$1. At September 30, 2009 there were 34,048,999 Class B Investment shares outstanding [33,784,147 in 2008]. These shares have been issued in two separate series, as follows: 10,855,422 Series 95 shares outstanding [10,873,803 in 2008] and 23,193,577 Series 2004 shares outstanding [22,910,344 in 2008].

Class A and B shares are redeemable by the holder only under certain restricted conditions. The aggregate maximum amount that can be redeemed in any year cannot exceed 10% of the outstanding balance, including any dividends declared but not yet paid, of either of the Class A or B shares, provided regulatory capital requirements are met. For fiscal year 2010, the aggregate maximum amount that could be redeemed is \$1,800,000 in Class A shares and \$3,524,000 in Class B shares.

	2009			
[thousands]	Membership Shares	Class A Shares	Class B Shares	Total
Outstanding, beginning of year	2,337	14,526	33,784	50,647
New shares issued	234	-	-	234
Share redemptions	(148)	(879)	(1,224)	(2,251)
Stock dividends paid	-	2,315	1,489	3,804
Outstanding, end of year	2,423	15,962	34,049	52,434

	2008			
[thousands]	Membership Shares	Class A Shares	Class B Shares	Total
Outstanding, beginning of year	2,285	12,090	32,840	47,215
New shares issued	214	-	-	214
Share redemptions	(162)	(1,060)	(763)	(1,985)
Stock dividends paid	-	3,496	1,707	5,203
Outstanding, end of year	2,337	14,526	33,784	50,647

All owners' capital accounts have been designated as financial liabilities.

Prior to the fiscal year end, the Board of Directors approved its intent to distribute a portion of the current year's earnings in the form of stock dividends to be paid in the subsequent year, as follows:

[thousands of dollars]	2009	2008
Class A Profit share distribution - calculated as \$0.90 for every \$1,000 of average deposit and loan balances [\$1.00 in 2008]	1,898	1,986
Class A Profit share dividend - calculated as 0.92% on owner Class A Profit share holdings as at year end [2.28% in 2008]	135	319
Series 95, Class B Investment share dividend of 3.50%, based upon the average of the Government of Canada 3-5 year marketable bond yields as published by the Bank of Canada plus 1.37% [4.41% in 2008]	380	480
Series 2004, Class B Investment share dividend of 3.50%, based upon the average of the Government of Canada 3-5 year marketable bond yields as published by the Bank of Canada plus 1.37% [4.41% in 2008]	812	1,011
Stock dividends payable	3,225	3,796
Add: Shortfall of prior year's stock dividend accrual over actual payments	7	10
Dividend expense	3,232	3,806

The credit union's dividend policy for Class B investment shares is to pay at a minimum, a rate equal to the average Government of Canada 3 – 5 year marketable bond yield plus 1%, which for 2009 was 3.13%. During the year however, credit spreads in the financial markets increased to unprecedented levels, resulting in market rates for government bonds that were significantly lower than other similar instruments. In order to ensure that a fair rate of return was paid to these shareholders relative to the nature of the investment held, the Board of Directors decided to pay a premium of 0.37% above the normal dividend policy rate for 2009.

Although owners' shares are regarded as capital for regulatory purposes, they impose a contractual obligation on Libro to pay cash in certain defined future circumstances and have, therefore, been classified as liabilities for purposes of these financial statements. Correspondingly, dividends paid on those shares have been included in the Statement of Income as a charge to earnings.

9) REGULATORY CAPITAL

Libro's capital management plan is designed to establish a strong base for future growth, the payment of dividends and profit sharing, as well as provide a cushion in the event of market volatility. Libro's capital plan is designed to comply with the Act which requires Libro to maintain regulatory capital of not less than 4.00% of total assets [4.25% in 2008] and 8% of a risk weighted equivalent value. The risk weighted equivalent value is calculated by applying risk weight percentages as prescribed by the Act to various assets, operational and interest rate risk criteria. At September 30, 2009 the total risk weighted equivalent value for Libro was \$885,676,000 [\$801,214,000 in 2008].

Libro is in compliance with the Act and regulations regarding regulatory capital as indicated by the table below:

[thousands of dollars]	2009	2008
Owners' capital accounts	52,434	50,647
Stock dividends payable	3,225	3,796
Retained earnings	37,744	36,536
Accumulated other comprehensive income	2,387	369
General allowance for credit losses	2,530	1,763
Total regulatory capital	98,320	93,111
% of total assets	7.40%	7.63%
% of risk weighted assets	11.10%	11.62%

10) EMPLOYEE FUTURE BENEFITS

Libro sponsors both a defined benefit pension plan and a sick leave benefit plan providing pension and sick leave benefits to eligible employees. The Credit Union Employees' Pension Plan is administered by CUMIS Life Insurance Company.

During the year, the credit union amended its sick leave benefit plan whereby after December 31, 2008, staff members can no longer accrue a benefit to be paid out on termination or retirement. Existing members had their accumulated sick leave days capped at the level achieved as at December 31, 2008 (Pre-2009 Days). Future sick days used above the annual provision will be deducted from Pre-2009 Days, with no opportunity to be re-earned once used. Payouts for existing members who terminate employment prior to retirement will equal one-third of the remaining Pre-2009 Days, to a maximum of 20 days, times the staff member's salary in effect at the date of termination. Payouts for existing members who retire from the credit union will equal remaining Pre-2009 Days, to a maximum of 100 days, times the staff members salary in effect at the date of retirement. This amendment to the sick leave benefit plan resulted in a reduction in actuarial liability as noted in the table below.

Actuarial valuations of the plans are made based on market-rated discount rates. The following table presents information related to Libro's benefit plans as at June 30, including the amounts recorded on the Balance Sheet, and the components of net periodic benefit cost:

	2009		2008	
	Pension Benefits	Sick Leave Benefits	Pension Benefits	Sick Leave Benefits
[thousands of dollars]				
Accrued benefit obligation				
Balance at beginning of year	14,138	1,256	12,668	1,102
Current service cost	1,071	39	1,078	117
Interest cost	836	65	721	64
Benefits paid	(133)	(35)	(93)	(12)
Employees' contributions	57	-	38	-
Reduction in actuarial liability	-	(186)	-	-
Actuarial gains	(1,597)	(99)	(274)	(15)
Balance at end of year	14,372	1,040	14,138	1,256
Plan assets				
Fair value at beginning of year	9,740	-	9,114	-
Expected return on plan assets	716	-	673	-
Employer contributions	1,056	35	1,057	12
Benefits paid	(133)	(35)	(93)	(12)
Employees' contributions	57	-	38	-
Loss on assets	(1,513)	-	(1,049)	-
Fair value at end of year	9,923	-	9,740	-
Funded status - plan deficit	(4,449)	(1,040)	(4,398)	(1,256)
Unamortized transitional obligation	115	-	147	65
Unamortized net actuarial losses (gains)	2,526	(99)	2,704	58
Accrued benefit liability included in accounts payable and accrued liabilities	(1,808)	(1,139)	(1,547)	(1,133)

Assets held within the pension plan consist of balances in the CUMIS Retirement Security Fund (0.9%), units of McLean Budden's Balanced Core Fund (49.9%), and Mawer Investment Management's Balanced Fund (49.2%).

Libro's pension plan and sick leave benefit plan expenses were as follows:

	2009		2008	
	Pension Benefits	Sick Leave Benefits	Pension Benefits	Sick Leave Benefits
[thousands of dollars]				
Current service cost	1,071	39	1,078	117
Interest cost	836	65	721	64
Expected return on plan assets	(716)	-	(673)	-
Curtailment gain	-	(63)	-	-
Amortization of net transitional obligations	33	-	32	8
Amortization of net actuarial losses	93	-	67	-
Net benefit plan expense	1,317	41	1,225	189

The assumptions used in the measurement of the benefit obligations are shown in the following table:

	2009		2008	
	Pension Benefits	Sick Leave Benefits	Pension Benefits	Sick Leave Benefits
Discount rate	6.25%	6.25%	5.50%	5.50%
Expected long-term rate of return on plan assets	7.00%		7.00%	
Rate of compensation increase	5.00%	5.00%	5.00%	5.00%

11) COMMITMENTS

[a] Lease obligations

Contractual obligations in respect of operating leases on credit union occupied premises and automobile amount to \$5,653,000 as at September 30, 2009 [\$6,435,000 in 2008] payable as follows:

[thousands of dollars]

2010	807
2011	693
2012	586
2013	549
2014	549
Thereafter	2,469

[b] Loan commitments

As at September 30, 2009 Libro had commitments to advance loans totalling \$61,462,000 [\$65,431,000 in 2008]. The mix of loans committed is consistent with existing funded portfolio balances.

[c] Undrawn lines of credit

As at September 30, 2009 Libro had undrawn lines of credit outstanding on behalf of owners amounting to \$248,782,000 [\$234,117,000 in 2008].

[d] Letters of credit

As at September 30, 2009 Libro had letters of credit outstanding on behalf of owners amounting to \$9,182,000 [\$8,340,000 in 2008].

12) DERIVATIVE FINANCIAL INSTRUMENTS

The following table summarizes the carrying values of the derivative financial instruments held by Libro. All these instruments have been designated as held for trading.

Derivatives consist of the following:

[thousands of dollars]	2009		2008	
	Assets	Liabilities	Assets	Liabilities
Interest rate swap agreements	2,855	-	-	284
Foreign exchange forward contracts	23	316	-	-
	2,878	316	-	284

Commencing in January 2009, the credit union considers whether a credit valuation adjustment ("CVA") is required to recognize the risk that any given counterparty to which the credit union is exposed, may not ultimately be able to fulfill its obligations. However, credit risk associated with contracts of this nature is generally a small fraction of the notional principal amount of the contract. Exposure to a loss would only occur if changes in market rates would cause a material unfavourable effect on a counterparty's position, which could then lead to the counterparty defaulting on its payment. The credit union only enters into derivative contracts with a counterparty it has determined to be creditworthy.

Interest rate swap agreements:

Libro enters into interest rate swap agreements in order to hedge against exposure to interest rate fluctuations. At September 30, 2009, Libro was party to seven such agreements [two in 2008] with Central 1. The agreements, in aggregate, represent a notional principal amount of \$112,778,000 [\$80,000,000 in 2008]. The notional principal amounts are used as the basis for determining payments under the contracts, and are not actually exchanged between Libro and its counterparties.

Interest rate swap agreements are valued by netting the discounted variable and fixed cash flows. Variable cash flows are calculated using implied interest rates as determined by current Canadian Dealer Offered Rate ("CDOR") and Swap interest rates, and term relationships. Fixed cash flows are calculated based on the rates stated in the agreements. These notional cash flows are discounted using the relevant points on the zero interest curve as derived from the month end CDOR and Swap rates.

A summary of Libro's swap agreements at September 30 is given below:

[thousands of dollars]							
2009							
Counterparty	Notional Amount	Maturity Date	Paying Rate Index	Receiving Rate Index	Paying Rate	Receiving Rate	Fair Value
Central 1	30,000	March 2010	30 day CDOR plus 1.02%	5 year swap rate - reset monthly	1.416%	2.641%	203
Central 1	4,421	March 2012	3 year swap rate - fixed	30 day CDOR	0.810%	0.396%	45
Central 1	6,046	August 2012	3 year swap rate - fixed	30 day CDOR	1.690%	0.395%	(2)
Central 1	50,000	March 2013	30 day CDOR	5 year swap rate - fixed	0.396%	3.610%	2,490
Central 1	5,564	August 2013	4 year swap rate - fixed	30 day CDOR	2.120%	0.395%	(20)
Central 1	6,864	March 2014	5 year swap rate - fixed	30 day CDOR	1.200%	0.396%	167
Central 1	9,883	July 2014	5 year swap rate - fixed	30 day CDOR	2.270%	0.395%	(28)
112,778					1.051%	2.418%	2,855

[thousands of dollars]							
2008							
Counterparty	Notional Amount	Maturity Date	Paying Rate Index	Receiving Rate Index	Paying Rate	Receiving Rate	Fair Value
Central 1	30,000	March 2010	30 day CDOR plus 1.02%	5 year swap rate - reset monthly	4.613%	3.629%	(361)
Central 1	50,000	March 2013	30 day CDOR	5 year swap rate - fixed	3.394%	3.610%	77
80,000					3.851%	3.617%	(284)

Foreign exchange forward contracts:

Libro uses foreign exchange forward contracts to manage liquidity, interest income, and to hedge the exchange risk in products denominated in US dollars. At September 30, 2009, Libro was party to one such agreement [none in 2008] with Central 1 as follows:

[thousands of dollars]						
2009						
Counterparty	Notional Amount	Transaction Details	Sell Date	Purchase Date	Exchange Rate	Fair Value
Central 1	5,000	Sell US dollars at spot, purchase US dollars forward	July 2009	October 2009	1.1357	(316)
	5,000				1.1357	(316)

From time to time Libro enters into forward exchange agreements with some of its owners. Owners enter into forward exchange agreements primarily to manage interest expense and hedge against US dollar exchange rates in their own operations. Libro enters into offsetting agreements with Central 1 to hedge the exchange risk with its owners. The notional amount of these agreements in US dollars was \$300,000 [nil in 2008] at year end, representing a fair value of \$23,000.

13) OWNERS' DEPOSITS

[thousands of dollars]		
	2009	2008
Demand deposits	242,600	204,879
Chequing deposits	243,437	249,518
Term deposits	425,597	423,535
Registered savings plans	175,064	157,001
Registered income funds	76,628	73,817
Registered tax free savings accounts	18,329	-
	1,181,655	1,108,750

Owners' deposits are either redeemable on demand or have a fixed date of maturity up to five years. Interest rates are set based upon the type, size and term to maturity of the deposit. All owners' deposits have been designated as financial liabilities.

The term to maturity and effective interest rates of Libro owners' deposit portfolio were as follows:

[thousands of dollars]							
2009							
Maturity	Demand	1 year or less	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 4 years	Over 4 to 5 years	Total
Total deposits	508,907	302,506	147,872	114,331	60,601	47,438	1,181,655
Effective interest rate	0.49%	3.18%	3.83%	4.25%	4.28%	3.85%	2.29%

[thousands of dollars]							
2008							
Maturity	Demand	1 year or less	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 4 years	Over 4 to 5 years	Total
Total loans	469,197	254,066	154,886	93,190	86,578	50,833	1,108,750
Effective interest rate	1.48%	3.56%	4.44%	4.34%	4.57%	4.40%	2.99%

14) ADDITIONAL INFORMATION**[a] Statement of Income Disclosures**

(i) For the year ended September 30, 2009 the amount of income earned from each loan class, and interest expense for each type of deposit was as follows:

Interest Income [thousands of dollars]	2009	2008
Residential mortgage loans	17,916	17,457
Personal loans	5,957	6,937
Agricultural loans	16,576	20,349
Commercial loans	14,223	16,912
	54,672	61,655
Interest Expense		
Demand deposits	3,017	4,827
Chequing deposits	818	2,967
Term deposits	16,049	17,462
Registered saving plans	6,396	6,058
Registered income funds	2,982	3,113
Registered tax free savings accounts	420	-
	29,682	34,427

(ii) Included in corporate and branch governance expense is remuneration to board and branch council members totalling \$151,000 [\$139,000 in 2008]. In addition to this remuneration, directors and committee members are reimbursed for travel and out-of-pocket expenses for attendance at meetings.

(iii) The net annual premium paid to DICO for insuring owners' deposits during the fiscal year ended September 30, 2009 was \$796,000 [\$710,000 in 2008].

(iv) The total fees paid to Central 1 amounted to \$740,000 for the year [\$698,000 in 2008]. These fees were primarily in respect of banking and clearing services, and membership dues.

[b] Statement of Cash Flows Disclosures

The change in cash generated by operating activities includes the following amounts:

(i) Income tax paid in the amount of \$654,000 [\$1,078,000 in 2008].

(ii) Interest received on loans to owners and credit union investments in the amount of \$59,150,000 [\$65,105,000 in 2008].

(iii) Interest paid on owners' deposit accounts in the amount of \$29,423,000 [\$32,722,000 in 2008].

(iv) Dividends paid on owners' capital accounts in the amount of \$3,804,000 [\$5,203,000 in 2008].

15) RESTRICTED PARTY TRANSACTIONS

As at September 30, 2009, the aggregate value of loans and letters of credit outstanding to directors, officers, their spouses and related corporations amounted to \$5,598,000 [\$5,545,000 in 2008]. There was no allowance for credit losses required in respect of these credit facilities. Interest rates and other terms and conditions relating to loans to directors are the same as those offered to all owners of Libro.

16) ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values of Libro's financial instruments were estimated using the valuation methods and assumptions described below. Since many of Libro's financial instruments lack an available trading market, the fair values represent estimates of the current market value of instruments, taking into account changes in market rates that have occurred since their origination. Due to the use of subjective assumptions and uncertainties, the fair value amounts should not be interpreted as being realizable in an immediate settlement of the instruments and are not recorded in the financial statements.

Estimated fair values of investments, loans and deposits are summarized as follows:

	2009		
[thousands of dollars]	Book Value	Fair Value	Difference
Investments	114,384	114,538	154
Loans to owners	1,149,520	1,167,487	17,967
Owners' deposits	1,181,655	1,194,355	(12,700)
Total net difference			5,421

	2008		
[thousands of dollars]	Book Value	Fair Value	Difference
Investments	127,877	128,047	170
Loans to owners	1,038,644	1,035,758	(2,886)
Owners' deposits	1,108,750	1,114,501	(5,751)
Total net difference			(8,467)

Estimated fair values are determined as follows:

Fair values for items that are short-term in nature approximate their book value. These include cash and cash equivalents, accrued interest receivable, other assets, income taxes receivable, accounts payable and accrued liabilities and accrued interest payable. Fair values for floating rate financial instruments are equal to book value as the interest rates automatically reprice to market.

Investments are valued using quoted market prices where available. Carrying values are used where no ready market values are available.

Fixed rate loans are valued by discounting the contractual future cash flows at current market rates for loans with similar credit risks.

Fixed rate deposits are valued by discounting the contractual future cash flows using market rates currently being offered for deposits with similar terms.

17) COMMUNITY INVESTMENT

Libro's community investment policy is to contribute a minimum of 5% of the current year's earnings, before distributions and income taxes, back into the communities in which Libro operates. For 2009, this amounted to \$329,000 [\$427,000 in 2008]. During the year, a total of \$114,000 [\$105,000 in 2008] in direct community investments were made and charged to operations. Prior to the fiscal year end, the Board of Directors approved its intent to allocate an amount of \$215,000 [\$321,000 in 2008], to be forwarded to the Ontario Credit Union Charitable Foundation to be held in the Libro Community Investment Fund. Disbursements will be made from the fund in the future at the discretion of Libro.

18) INCOME TAXES

Significant components of the future tax asset of Libro as at September 30 are as follows:

	2009	2008
[thousands of dollars]		
Book amortization in excess of capital cost allowance	(18)	30
Reserves deductible in future periods	498	461
Allowance for impaired loans	451	319
Deferred losses (gains) on derivatives, held for trading investments, available for sale investments	(821)	62
Deferred revenue	61	40
Other future tax assets	66	-
	237	912

The reconciliation of income tax computed at the statutory rates to income tax expense is as follows:

	2009		2008	
[thousands of dollars]	Amount	%	Amount	%
Tax at combined federal and provincial rates	502	33%	1,451	35%
Credit unions deduction	(255)	(17%)	(694)	(17%)
Other - net	66	4%	(81)	(2%)
	313	20%	676	16%

Tax amounts related to current period other comprehensive income are as follows:

	2009		
[thousands of dollars]	Gross	Tax	Net of Tax
Available for sale financial instruments	188	31	157
Financial instruments designated as cash flow hedges	2,242	381	1,861
Other comprehensive income	2,430	412	2,018

19) TRANSFERS OF LOANS RECEIVABLE

Libro sells mortgage loans to other financial institutions as described in note 1(o).

As at September 30, 2009, the aggregate outstanding value of loans transferred amounted to \$19,737,000 [\$28,150,000 in 2008]. The net gain or loss on the sale of mortgages resulting from these transfers is immediately recognized in the Statement of Income as "Non-interest income". None of the mortgage loans were delinquent at September 30, 2009. In addition, there were no credit losses incurred on the mortgages transferred in 2009 or 2008.

Transfers of loans receivable activity in the year

	2009	2008
[thousands of dollars]		
Premium on sales	22	38
Cash flows remitted on collections	(10,058)	(9,634)
Servicing fees received	140	190

The terms of the credit union's lending policies require Libro to maintain a portfolio limit on commercial and agricultural loans not to exceed 55% of total deposits and regulatory capital. This limit is calculated on a rolling 90 day basis, and any excess must be corrected within 90 days. The credit union was within this limit throughout all of 2009 and 2008.

20) SECURITIZATION OF LOANS

Libro securitizes mortgages through the transfer of mortgage loans to a special purpose entity as described in note 1(p).

As at September 30, 2009, the aggregate value of securitized loans outstanding amounted to \$37,558,000 [\$11,274,000 in 2008]. The net gain on the sale of mortgages resulting from these securitizations is immediately recognized in the Statement of Income as Non-interest income. None of the mortgage loans were delinquent at September 30, 2009. In addition, there were no credit losses incurred on the mortgages transferred in 2009 or 2008. Since these mortgages are sold on a serviced basis, Libro has a servicing liability of \$217,000 [\$31,000 in 2008] included on its Balance Sheet.

[a] Cash flows related to the securitizations

The table below summarizes certain cash flows related to the securitization trusts:

	2009	2008
[thousands of dollars]		
Proceeds from securitizations in the year	33,808	-
Cash flows remitted on collections	(6,663)	(9,436)
Cash flows received on retained interests	306	69

[b] Sensitivity of key assumptions to adverse changes

The following table presents key economic assumptions and the sensitivity of the fair value of retained interests to two adverse changes in key assumptions as at September 30, 2009. The following sensitivity analysis is hypothetical and should be used with caution.

	2009
[thousands of dollars]	
Balance sheet carrying value of retained interests	2,524
Weighted average life in years	2.4
Excess spread	3.02%
Prepayment rate assumption	13.60%
Impact of a 10% adverse change	(66)
Impact of a 20% adverse change	(130)
Residual cash flow discount rate	4.28%
Impact of a 10% adverse change	(14)
Impact of a 20% adverse change	(29)

c] Impact of securitizations on income

The following table summarizes the impact of securitizations on the Statement of Income:

	2009	2008
[thousands of dollars]		
Pre-tax net gain on sale of mortgages	2,036	-
Adjustment to carrying value of interest spread receivable	(13)	-
Excess interest net of servicing fee	60	5
Interest earned on cash reserves	11	55
Amortization of servicing liability	(33)	(34)
Total	2,061	26

21) RISK MANAGEMENT

[a] Liquidity Risk

Liquidity risk is defined as the risk that the credit union will be unable to pay obligations when they fall due, or become unable to repay depositors when funds are withdrawn, or become unable to meet commitments to lend money. Libro manages liquidity risk within Board Policy limits to ensure the credit union has sufficient liquidity to meet its obligations. This is managed by monitoring cash flows and cash forecasts, maintaining a portfolio of high quality liquid financial assets (see note 2), monitoring and managing the remaining contractual term to maturity if its loan and deposit portfolios (see notes 3 and 13), and maintaining access to credit facilities through Central 1 (see note 7). Libro achieves this through a combination of active management of organic balance sheet growth, borrowing, whole loan sales, and loan securitization.

[b] Credit Risk

Credit risk is defined as the risk of financial loss due to a borrower or counterparty failing to meet its obligations in accordance with contractual terms and arises from our direct lending, trading, investment and hedging activities. Granting loans to owners is one of the credit union's primary sources of income and Libro grants credit through consideration of an owner's credit history, character, collateral, and capacity for debt. Owners' financial situations are monitored through the life of the loan and all current receivables are expected to be collected. Debt that appears to be in arrears is impaired to the extent that a loss is expected.

Libro uses internal risk scoring measures to assess the credit quality of commercial and agricultural borrowers. These measures are derived from the underlying credit experience, collateral, management expertise, and other objective financial measures. Credit quality of retail borrowers is measured in part by consideration of beacon scores. The application of these scoring measures at September 30 is as follows:

Credit Quality by Class	2009				
	Residential Mortgage Loans	Personal Loans	Agricultural Loans	Commercial Loans	Total
[thousands of dollars]					
Above standard	284,837	111,890	167,963	112,290	676,980
Standard	30,836	12,022	173,152	186,543	402,553
Below standard	38,701	7,838	7,535	15,913	69,987
	354,374	131,750	348,650	314,746	1,149,520

Credit Quality by Class	2008				
	Residential Mortgage Loans	Personal Loans	Agricultural Loans	Commercial Loans	Total
[thousands of dollars]					
Above standard	272,511	93,621	121,505	90,820	578,457
Standard	34,797	11,819	185,820	171,080	403,516
Below standard	35,814	6,184	7,827	6,846	56,671
	343,122	111,624	315,152	268,746	1,038,644

To manage credit risk Libro secures collateral against all types of loans. In the event that an Owner is unwilling or unable to meet their obligations as a borrower, security is liquidated to repay the obligation to Libro. Collateral is taken on each loan funded with regard to the owner's overall credit worthiness including credit history, character, capacity for debt, and type of loan granted. Collateral is generally secured for each type of loan as follows:

Loan Type	Nature of collateral obtained
Mortgages	Mortgage loans are secured by real property. Libro owners generally have equity in the property being mortgaged.
Term Loans	Term loans are generally secured by assets which are equivalent to the approved balance. Term loans can be unsecured. Risk of unsecured term loans are reflected in the rate of the loan.
Instalment Loans	Instalment loans are generally secured by assets which are equivalent to the approved balance of the loan. Instalment loans can be unsecured. Risk of unsecured instalment loans are reflected in the rate of the loan.
Line of Credit	Line of credit loans are generally secured by assets which are equivalent to the approved balance of the facility. Lines of credit can be unsecured. Risk of unsecured line of credit are reflected in the rate of the facility.

c] Market Risk

Market risk is defined as the risk that the credit union's ability to meet business objectives will be adversely affected by volatility in market rates. Libro manages market risk using an earnings at risk approach. The primary objective of this approach is to maximize earnings on a consistent basis while minimizing reductions to net income resulting from changes in future interest rates.

Libro uses income simulation modeling to measure exposure to changes in interest rates over short term periods. Earnings at risk is calculated by forecasting the net interest margin for the next 12 month period using most likely assumptions. Most likely assumptions include management's best estimates for planned growth rates and the use of future interest rates. Planned growth rates are recorded at the start of the fiscal period as initially set out in the budget and modified to actual experience through the fiscal period. Future interest rates on new business and product renewals are determined using the future interest rates derived mathematically based on the term structure of interest rates. The impact of rate shock scenarios are measured against the most likely forecast ("MLF") as defined above. The resulting change in the forecast as a result of interest rate shocks is then compared to the MLF to determine the earnings at risk amount. Maximum change limits under these interest rate scenarios have been set out by the Board of Directors. These scenarios are based on hypothetical simulations assuming the markets are shocked with 100 or 200 basis point volatility. At the current time, Libro is in compliance with all limits set by the Board of Director Policy.

The policy limits and most likely projections are as follows:

Asset Liability Management Limits	Maximum Change Limit	Projected Change to Earnings	Status
Most Likely Shocked + 200 basis points	10%	7.37%	Compliant
Most Likely Shocked + 100 basis points	5%	3.76%	Compliant
Most Likely Forecast Scenario	0%	0.00%	Compliant
Most Likely Shocked - 100 basis points	-5%	0.63%	Compliant
Most Likely Shocked - 200 basis points	-10%	2.25%	Compliant

d] Currency Risk

Currency risk is the risk that fair value of future cash flows of a financial instrument will fluctuate because of a change in foreign currency rates. Libro's net income is exposed to currency risk from U.S. dollar investments and owner U.S. dollar deposits.

Libro mitigates currency risk of U.S. dollar financial assets and liabilities by investing in offsetting U.S. dollar financial instruments with similar terms. Currency risk is managed in accordance with the Board of Director policy which the Board reviews annually.

For a 1% instantaneous increase or decrease in exchange rate, Libro's net income would change by \$500.

22) FUTURE ACCOUNTING CHANGES

Financial Instruments

In March 2009, the CICA issued amendments to Handbook Section 3862, "Financial Instruments - Disclosures". This new standard is effective for Libro beginning October 1, 2009. These amendments will enhance disclosure requirements on maturity disclosure arising from certain financial instruments.

In July 2009, the CICA's Accounting Standards Board amended Handbook Section 3855, "Financial Instruments - Recognition and Measurement". These amendments are effective for Libro beginning October 1, 2009. The amendments expand the definition of Loans and Receivables, amend the impairment model for Held to Maturity financial instruments and allow for reversal of impairment losses for Available for Sale debt instruments in certain circumstances. The adoption of these new standards will not have a material impact on the financial statements.

International Financial Reporting Standards

In 2006, the CICA's Accounting Standards Board formally adopted the strategy of replacing Canadian generally accepted accounting principles with International Financial Reporting Standards for Canadian enterprises with public accountability. These new standards are effective for Libro beginning October 1, 2011. These new accounting standards have been adopted for comparison with international entities.

23) COMPARATIVE FIGURES

Certain comparative figures have been reclassified to reflect the presentation adopted in the current year.